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Are the Main Institutional Changes that Created the “Business Man” Still Relevant?

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**Are the Main Institutional Changes
that Created the “Business Man”
Still Relevant?**

HAYDEN JOBLIN

EC 3190-01: Institutional Economics

Spring 2014

Dr. Hee Young Shin

Dr. Shin notes that students are required to read Thorstein Veblen’s original works – either *The Theory of the Leisure Class* or *The Theory of Business Enterprise* – and write a critical review essay. Hayden’s essay shows deep understanding of the materials and evaluation of contemporary relevance.

INTRODUCTION

Thorstein Veblen was a leading economist who specialized in the study of social and economic institutions in the late nineteenth and early twentieth centuries. He is considered to be the leader of the American Institutional school of thought. In 1904 he published his second most well-known book *The Theory of Business Enterprise*. In this book Veblen provides an insight into what was then “modern capitalism.” He explains the changes in particular institutions and ethics that have forged the way for the “business man.”

In this review essay I will discuss what I believe Veblen considered the main fundamental changes in the institutions that brought about the “business man” by introducing the institutional concepts of vast standardization in the machine process, ownership, and the role of credit. I will then provide my own point of view in analyzing the relevance of those institutional changes in the modern world. I believe that it is important because these institutional concepts may provide a foundation of how the modern society operates.

INSTITUTIONAL CHANGES IN THE BUSINESS ENTERPRISE

A. Machine Process in the Creation of the “Business Man”

The first institutional change that Veblen describes is the formation of the machine process characterized by an interdependent system of processes used and developed on the previous development. Basically the machine process is an inter-relation of different sectors, which then produce a good. These complex connections between sectors have formed the vast standardization that Veblen outlines. Veblen emphasizes the importance of a unified production process. This is important because all production is reliant on another – e.g. in the form of inputs in production, features such as metrics, gauges, and weight must meet the needs of the next machine process. If they do not meet the needs of the next stage in the process, the system

creates delays and it becomes unreliable. Veblen believes that the production process can be entirely affected by the actions of a single firm. This highlights the importance of standardization on the effectiveness of the machine process.

The machine process has resulted in the creation of the “business man” as Veblen describes it. The business man controls the transactions and relationships that ultimately determine the running of the mechanical industrial system; whether it runs smoothly or disastrously does not matter to the “greater business man.” As he can benefit from disturbances within the system, he may not have society’s best interests at heart.

B. Institution of Ownership in “Business Man’s” Motives

Veblen believes that the above consequence has changed the motive of business, which in his words is “pecuniary gain,” or monetary gain. He believes that the change in the institution of ownership is why motives have changed. According to Veblen, the importance of money in society has replaced older institutions such as bloodline, patriotism, and the role of the church. It used to be that ownership was a natural right, meaning that if someone made something then it was their property to do with it as they chose. In Veblen’s time, ownership was determined by the “money economy” where the market determined the ownership of goods. He explains that money is the essence of business. According to Veblen, ownership is determined by how much money an individual has: “the business man judges of events from the standpoint of ownership, and ownership runs in terms of money” (Veblen 1904:45). I believe that the motives generated by money may result in less than ideal business decisions for the industry and society, especially in the short term when monetary gains are important for those making the business decisions. This is what I believe Veblen is describing when he talks about “pecuniary gain.”

C. The Corruption of Credit

The idea of “pecuniary gain” brings me to my next point: the role of credit. Veblen has a negative view of credit and how it affects the business enterprise. To me it seems that the institution of credit provides a number of incentives for the “business man” to behave in a way that is unethical in today’s standards to maximize their “pecuniary gain.” First to summarize Veblen’s arguments, basically businesses borrow funds to obtain a competitive advantage. This competitive advantage is offset as more and more businesses borrow funds and offset the competitive advantage. This results in inflating price levels which leave businesses no better off than they were previously. The business man then borrows more funds to purchase assets, and the more assets a business owns the more the business can borrow. This cycle repeats until the assets fall in price and the banks seize assets and thus control. I believe that the most important point that Veblen brings up is that the “business man” is not concerned with the productivity or output of the industrial process but is focused primarily on “pecuniary gain” or business capitalization. One example is that businesses borrow to purchase stock which then leads to an increase in the stock price. They are able to sell the stock at the higher price, pay the bank and earn a large profit. This is an example where credit has created very little actual growth, and the growth has only occurred in the form of money. Veblen argues that the financial system is creating a formidable gap between the actual industrial process and the business capitalization.

CONCLUSION

I believe that some of the institutional changes that Veblen has discussed in the *The Theory of Business Enterprise* are still relevant. The machine process is still dominant. The development of technology and the demand for consistent performance have resulted in the service industry behaving more like an industrial plant. Processes in the service industry are more standardized than they used to be and workers are required to follow strict procedures in dealing with

customers. Another institution that is prevalent today is that ownership is based on money. Businesses are rarely passed on through the family and are more likely to be sold to the highest bidder. In general, people associate success with monetary gain, and I believe this is what Veblen was trying to emphasize.

Finally, credit may not be as corruptive today as Veblen portrays it. Loans are not only given out to businesses with large amounts of capital but are also given out to individuals looking to pursue their dreams in business. Entrepreneurs rely heavily on the credit industry to generate enough capital to start businesses. This opinion is a positive outlook on credit and can be seen to increase the productivity of society. Veblen acknowledges the possible benefits of credit but also provides multiple reasons why credit is unproductive.

Ultimately the institutions outlined in this essay are still relevant today and have influenced the way that the business man operates.

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